



# The Economic and Fiscal Update

## Overview

November 2005



### Highlights

- The Government has launched *A Plan for Growth and Prosperity*, a new economic framework to guide future budgets as new opportunities and challenges emerge over the next decade and beyond.
- This Update proposes a series of measures as first steps in implementing this Plan, in areas such as taxation and other economic and social priorities.
- Fiscal surpluses are projected for this year and the next five years.
- Private sector economists expect the economy to grow by 2.8 per cent in 2005, 2.9 per cent in 2006 and 3.1 per cent in 2007.
- Despite a significant appreciation of the Canadian dollar and rising energy costs, the economy strengthened and more than 200,000 jobs have been created so far this year.
- Canada's unemployment rate and corporate profits are at their best levels in 30 years.

### Global Economic Outlook

Despite the dampening effects of higher energy prices, global economic expansion remains on track.

The International Monetary Fund expects the world economy to slow from its brisk 2004 pace of 5.1 per cent to a still-strong 4.3 per cent in both 2005 and 2006. U.S. growth is expected to moderate to 3.3 per cent in 2006 from 3.5 per cent in 2005.

### Canadian Economic Outlook

Private sector forecasters surveyed by the Department of Finance expect the domestic economy to grow by 2.8 per cent in 2005, 2.9 per cent in 2006 and 3.1 per cent in 2007.

Canada is expected to have the second-fastest growth rate in 2005 and 2006 among Group of Seven (G7) countries, after the U.S.

While the economic outlook is promising, private sector economists note two main risks to the outlook for the Canadian economy.

First, should energy costs rise further, consumer confidence in Canada and the U.S. could be affected, reducing demand for Canadian goods on both sides of the border. Second, the large U.S. budgetary and current account deficits could result in further depreciation of the American dollar against all currencies including the Canadian dollar, bringing further challenges for Canadian exporters.

### A Resilient Economy

Despite a significant appreciation of the Canadian dollar, Canada's economic growth strengthened in 2004 and 2005. Real gross domestic product (GDP) grew 3.2 per cent in the second quarter of 2005, up from 2.1 per cent growth in each of the previous two quarters.

Growth was more balanced in the second quarter of 2005 as well, as both net exports and domestic demand contributed to Canadian growth. This export growth suggests that Canadian firms are adjusting to the challenges of a rising dollar.

This robust growth has benefited Canadians in many ways:

- The Canadian economy has created 204,000 jobs so far this year, with October's unemployment rate reaching the lowest point in three decades.

- Housing affordability remains near its best level on record.

- Corporate profits, at 14 per cent of GDP, are at the highest level in over 30 years.

### Continued Fiscal Strength

Based on independent forecasts, after adjusting for the Contingency Reserve and economic prudence and taking into account measures announced since the last budget, the amounts available for planning purposes are as follows:

#### Average Private Sector Projections

2005-06:	\$8.2 billion
2006-07:	\$9.2 billion
2007-08:	\$9.5 billion
2008-09:	\$7.9 billion
2009-10:	\$8.4 billion
2010-11:	\$11.3 billion
Total:	\$54.5 billion

### Future Challenges: A Plan for Growth and Prosperity

By virtually any measure, the Canadian economy has been one of the world's most successful over the past decade.

This success was no accident. In 1994 the Government set out a bold economic agenda, which it has steadfastly carried out ever since.

It has worked, delivering huge economic and social dividends, such as:

- The best job creation performance in the G7.
- Eight consecutive budget surpluses, a Canadian record.
- The only total government surplus among the G7 in 2004, and the only projected surpluses among the G7 in 2005 and 2006.
- The lowest debt-to-GDP ratio among the G7, and the lowest debt ratio in Canada in over 20 years.
- Debt charges as a share of budgetary revenues that are the lowest since the late 1970s.

To build on that progress and maintain a quality of life second to none, Canada must now focus on new opportunities and challenges that will shape the world over the next decade and beyond. These include: the rapid growth of emerging economic giants such as China and India; the widespread adoption of new ways of producing and delivering goods and services; and pressures on Canada's future standard of living as the baby boom generation retires and the number of working age Canadians begins to shrink.

The Government's new economic framework—*A Plan for Growth and Prosperity*—responds to the challenge of building a successful 21st century economy by investing in people, promoting innovation and facilitating the freer flow of people, goods, services and capital both within our own borders and across our borders.



## First Steps

As first steps in implementing the challenges outlined in the Plan, the Government has proposed measures on four fronts.

### Creating Opportunities for All Canadians

To help realize the potential of all Canadians, the Government proposes:

- \$2.2 billion over five years to improve student financial assistance and help make post-secondary education more affordable for lower- and middle-income Canadians.
- \$550 million over five years to extend Canada Access Grants to 55,000 students from low-income families in all years of undergraduate education.
- \$3.5 billion over this year and the next five years to increase workplace-based training.
- \$1 billion in 2005-06 for provinces and territories for the Post-Secondary Education Innovation Fund.
- \$265 million over five years to assist Canadians with disabilities in participating in the workforce.
- \$1.3 billion over five years to improve settlement and integration services for new immigrants.

### Advancing an Innovative Economy

To help strengthen Canada's innovative capacity to prosper in the global, knowledge-based economy, the Government proposes:

- More than \$2.1 billion in new funding in 2005-06 and over the next five years to sustain Canada's leadership in university-based research.

- Close to \$200 million over the next five years to provide up to 3,500 internships and up to 500 M.B.A. scholarships for natural and health sciences and engineering graduates, and to support knowledge-based clusters to enhance the capability of firms to perform research and development (R&D), adopt new technologies and commercialize discoveries.

- A goal of devoting 5 per cent of federal R&D to the priorities of the developing world.

### Positioning Canada at the Centre of Global Commerce and Networks

To help Canada be at the centre of global commerce and fully benefit from emerging global opportunities, the Government proposes:

- \$485 million over five years to implement CAN-Trade, a new international commerce strategy that will better position up to 5,000 Canadian firms, particularly small and medium-sized enterprises, in priority markets such as China and India.
- \$590 million over the next five years to support transportation infrastructure investments and other initiatives enhancing Canada's Pacific gateway.
- An additional \$100 million over the next five years to continue supporting broadband deployment in rural, remote and First Nations communities.

### Building the Right Investment Environment

To create the right investment environment for prosperity, the Government proposes:

- Setting a new objective of reducing the debt-to-GDP ratio to 20 per cent by 2020, to help address pressures associated with an aging population and underscore the Government's commitment to fiscal discipline.

- Introducing a major personal income tax cut plan to improve the rewards from working, investing and saving. This includes:

- A Working Income Tax Benefit to reduce the barriers to work faced by low-income Canadians—the "welfare wall"—starting in 2008.

- An immediate \$500 increase to the basic personal amount—the amount of income all Canadians can earn without paying federal income tax—effective January 1, 2005.

- A reduction of the lowest personal income tax rate from 16 per cent to 15 per cent effective January 1, 2005, and 1-percentage-point reductions to each of the two middle rates by 2010.

- An increase of the income level at which the top tax rate begins to apply starting in 2010, to make Canada more attractive to highly skilled and mobile workers.

- Creating a climate for investment and job creation by:

- Confirming the general corporate income tax rate reductions and the elimination of the corporate surtax for all corporations proposed in Budget 2005.

- Eliminating the federal capital tax as of 2006, two years ahead of schedule.

- Extending carry-forward periods for business losses and investment tax credits.

- Accelerating capital cost allowance to encourage bioenergy in the pulp and paper sector.

- Promoting regulatory efficiency through a five-year \$90-million investment that will reduce the administrative burden on small business and improve access to information on programs and services across all levels of government.

### A New Tax Reduction Plan

The new tax reduction plan will deliver more than \$30 billion in personal and corporate income tax relief over the current year and the next five years, 95 per cent of which will go to individual Canadians.

The plan builds on \$22 billion of tax reduction measures set out in Budget 2005 and the Government's \$100-billion Five-Year Tax Reduction Plan in 2000.

As in the past, the Government will deliver more, sooner, as resources permit.

### The Way Forward

Through A Plan for Growth and Prosperity, the Government has set out a medium-term economic framework for action.

The Government recognizes, however, that no single initiative or budget can guarantee growth and prosperity, and in the years to come will take further steps to fulfill the priorities set out in the Plan.

### How Can I Get More Information?

Information on the 2005 Economic and Fiscal Update is available on the Internet at [www.fin.gc.ca](http://www.fin.gc.ca) or by phoning:

1 800 O-Canada (1 800 622-6232)

1 800 926-9105

(TTY for the speech and hearing impaired)

You can also obtain copies of this fanfold, other Economic and Fiscal Update documents, and *A Plan for Growth and Prosperity* from the:

Distribution Centre  
Department of Finance Canada  
Room P-135, West Tower  
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